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Subject

Date

Economics IA

Keywords

Economic integration is an effective way of increasing links among countries. Corporation among countries leads to many benefits such and free trade, increased competition, high investments, expansion into larger markets and improved productivity. Exit of United Kingdom from European Union will impact its trade relations with other countries. Brexit will cause countries to impose tariffs which will impact UK’s imports. Changes in imports and exports are most likely to be experienced by UK. Custom union and free trade are important components of economic integration that can be effective in covering trade agreements from both sides. Free trade deal has positive impacts on EU economy specially in the food processing and agricultural sectors.

Diagram

DS

P

P\* IM WS

DD

Qd Qw

The first diagram shows how trade affects demand and supply in the absence of tariffs. P represents the price of goods at home (UK) and P\* shows work price. The import is Qw- Qd. The second diagram shows how imports change when countries like US, Australia and New Zealand will impose tariffs.

DD DS

P1 Domestic prod WS +Tariff

P\* IM

WS

Qd Qw

The diagram shows the options of trade used by UK after Brexit. It explains possible relationships between UK and EU countries. Free movement of goods is considered only. There are limitations because free movement of people is ignored. Impact on UK’s trade deals with United States, Australia and New Zealand is examined. Brexit will cause UK to suffer if US, Au and NZ slash import tariffs (Chu). When any country imposes tariff or increase price than the volume of imports will be effected. Price is increased from P\* to P1 which indicates the changes due to imposition of tariff. Due to high prices the imports will decline. This indicates that domestic production will increase. The diagram explains the overall impact would be reduction in imports and high consumer prices.

Theory

Theory of economic integration identifies trade as an important element for economic growth. Bilateral or multilateral trade agreement can be used with group of countries for removing trade barriers. The options considered for Brexit include custom unions and free trade. United Kingdom decided to exit from the common market which support free movement of labor and capital. External tariffs are imposed on non-member nations only. Custom union eliminate trade barriers among member countries that enter into agreement. The countries cannot determine their trade policy independently. This prevents them from the creation of complicated rules. Free trade are allow group of countries to remove trade barriers.

Evaluation of solution

To determine future trade relations of UK with other countries two possible solutions include custom unions and free trade area. Customs union is a practical solution that can be used by UK for overcoming trade challenges. UK will be removed from single marker due to hard exit which means no free movement of goods, capital or labor. If UK fails to participate in custom unions it will face tariff from other countries that will restrict imports. UK will need to control its negative trade balance which is low compared to other European countries (Chu). UK is importing capital intensive goods including food, chemicals, live products and machinery. Custom unions could be an effective solution for UK because it will allow the country to enter intro trade agreements. By this option UK would manage to import duty-free products from European countries. However it must be noted that custom unions allow only movement of goods not services.

Another possible solution could be single market in case of soft Brexit. This suggests having free access to the European market. However UK will not remain member of European council. Low intra-trade costs is prominent benefit for single market. UK can benefit from the reduction of intra cost. The analysis of the solutions depicts that the best option available to UK after Brexit is custom union. After Brexit countries like US, NZ and Au will impose tariff. Custom union promote free trade flow that will work as a free trade agreement among UK and other countries. By entering into trade agreements with these countries UK would manage to overcome trade barriers. Countries will accept unified common tariff that will support trade activities among them. The effect of custom unions is analyzed through trade creation. This indicates that more efficient members will sell to less efficient members. Closer interaction among countries is also a potential benefit of custom unions. Economic and political collaboration is possible that leads to single internal market.

Work Cited

Chu, Ben. Brexit: Free trade deals 'won't offset leaving EU’ 11. 2019. 16 01 2020 <https://www.bbc.com/news/business-50719616>.